

AGENDA ITEM SUMMARY

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Missouri Student Loan Program Update
Coordinating Board for Higher Education
October 14, 2004

DESCRIPTION

The Missouri Student Loan Program (MSLP) had another year of record volume year in state fiscal year (SFY) 2004. During SFY04 the loan program guaranteed over \$881 million in student loans including consolidations for over 95,000 borrowers, which represents an increase of 24% over SFY03. The MSLP's total loan volume has more than doubled (117% growth) from the SFY01 level of \$406 million. In addition, Stafford and PLUS loan guarantees in SFY04 exceeded \$630 million for over 85,000 borrowers, which represents an increase of 21% over SFY03. The MSLP's Stafford and PLUS guarantee volume has nearly doubled (98% growth) from the SFY99 level of \$318 million.

As reported during the June board meeting the conversion to our new servicer, American Student Assistance, was completed in April 2004. Since converting MSLP has guaranteed 122,252 loans totaling over \$606 million benefiting 68,014 students.

During this period of growth, the loan program has seen significant improvements in other key industry financial measures. First and foremost is the recently released 2002 cohort default rate of 4.5% for the loan program, which for the first time since 1996 was below the national average of 5.2%. The 4.5% rate for the MSLP is a 2% decline over the 2001 rate of 6.5%, which represents an improvement of 31%. The cohort default rate represents the number of borrowers who entered repayment on their student loans between October 1, 2001 and September 30, 2002 and defaulted on their loans between October 1, 2001 and September 30, 2003. The significant decline in the cohort default rate is in part a result of our default prevention grant program.

In addition, to guaranteeing student loans, the MSLP spends considerable time and effort trying to prevent borrowers from defaulting on their student loans. The program utilizes numerous methods to reduce student loan defaults including providing assistance to lenders when a loan becomes more than 60 days delinquent. In SFY04, the loan program provided default aversion assistance to nearly 46,000 borrowers and their lenders. Preventing defaults and collecting from defaulted borrowers is a critical part of ensuring the FFEL program costs are kept low so tomorrow's students can continue to take advantage of the student loan program.

The default prevention grant program, which was implemented by the DHE in 1999 at Missouri's historically black colleges and universities and expanded to all high cohort default rate institutions in Missouri in 2001, has been the cornerstone of Missouri's new default prevention activities. Each of the

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18 institutions participating in the program has successfully implemented a variety of default prevention strategies. Collectively these institutions have lowered their cohort default rates by 9%, and individually all institutions that are participating in the program have significantly lowered their cohort default rate.

As an agent of the US Department of Education, the MSLP insures private commercial banks against loss from defaulted and discharged student loans. Lenders are insured at 98% of the outstanding principal and interest at time of default for defaulted loans and 100 percent for loans discharged due to death, disability, closed school and bankruptcy. MSLP must review each claim filed by a lender to ensure the lender has complied with all federal laws and regulations throughout the life of the loan to that point. If the lender fails to comply with all federal and MSLP guidelines, the insurance claim will be denied and the lender loses the federal loan guarantee and must try to collect the loan. In SFY 04, the student loan program reviewed and paid over 9,700 claims. The MSLP is reinsured by the federal government at 95% on default claims and 100 percent on specialty claims. The loan program's default rates continue to improve as only 1.9% of the program's loans in repayment defaulted in federal fiscal year 2003 down from 2.8% in 2002.

In the federal fiscal year ended September 30, 2003, the MSLP and its contractors collected over \$66 million from defaulted borrowers on a defaulted loan inventory of \$207 million. While the majority of these collection revenues are the property of the US Secretary of Education, the MSLP retains from 18.5 to 23% (depending on the collection type) of these revenues to pay collection related expenses, which includes collection agency commissions and other collection related expenses as described in the Federal Loan Compliance appropriation authority request. The MSLP pays these collection commissions (actually called contingency fees) with the MDHE's Operating Fund share of collection revenues described in this request. In federal fiscal year 2003, the program collected 32% of its outstanding defaulted student loan portfolio. The MSLP has recently completed a restructuring of its collection agency contracts that has resulted in a significant reduction in collection commission rates.

STATUTORY REFERENCE

Sections 173.095 to 173.187, RSMo, Missouri Student Loan Program

RECOMMENDED ACTION

This is an information item only.

ATTACHMENT

None